

Audit



Report

OFFICE OF THE INSPECTOR GENERAL

**DEFENSE LOGISTICS AGENCY PRODUCT
QUALITY DEFICIENCY PROGRAM**

Report No. 98-063

February 5, 1998

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Acronyms

| | |
|--------|------------------------------------|
| ABVS | Automated Best Value System |
| DLA | Defense Logistics Agency |
| DODAAC | DoD Activity Address Code |
| ICP | Inventory Control Point |
| PQDR | Product Quality Deficiency Report |
| QAS | Quality Assurance Specialist |
| OSD | Office of the Secretary of Defense |



**INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
ARLINGTON, VIRGINIA 22202-2884**



February 5, 1998

MEMORANDUM FOR DIRECTOR, DEFENSE LOGISTICS AGENCY

**SUBJECT: Audit Report on Defense Logistics Agency Product Quality Deficiency
Program (Report No. 98-063)**

We are providing this audit report for information and use. We conducted the audit in response to a request by the Defense Logistics Agency.

Management comments on a draft of this report were considered in preparing the final report. The comments were responsive and conformed to the requirements of DoD Directive 7650.3; therefore, no additional comments are required.

We appreciate the courtesies extended to the audit staff. Questions on the audit should be directed to Mr. Terry L. McKinney, Audit Program Director, at (703) 604-9288 (DSN) 664-9288 or Mr. Michael H. Claypool, Audit Project Manager, at (703) 604-9291 (DSN 664-9291). Respective email addresses are <TMcKinney@dodig.osd.mil> or <MClaypool@dodig.osd.mil>. See Appendix H for the report distribution. The audit team members are listed inside the back cover.

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Office of the Inspector General, DoD

Report No. 98-063
(Project No. 7CF-0027)

February 5, 1998

Defense Logistics Agency Product Quality Deficiency Program

Executive Summary

Introduction. We initiated the audit in response to a request from the Director, Defense Logistics Agency. He was interested in improving the product quality deficiency report system, which is used by DoD Components to identify and purge nonconforming material from inventory and to provide information to contracting officers, contractors, and customers. Nonconforming material is a defective supply item that cannot be used for its designed purpose because of material, manufacturing, or workmanship defects. The product quality deficiency program enables DoD customers to report defects to the buying commands, who then investigate the complaints, exchange deficiency information for corrective actions through the acquisition and support process, and maintain contractor quality history to be used for Government best value contractor source selection. From October 1, 1995 through April 30, 1997, 17,051 product quality deficiencies were reported to the Defense inventory control points for investigation and determination.

Audit Objectives. The overall objective of the audit was to evaluate the product quality deficiency report program used by DoD components; however, we limited the audit to include only the Defense Logistics Agency product quality deficiency program. Specifically, we determined whether defective products were reported by customers; and if reported, whether they were promptly investigated and corrected. We also reviewed DoD progress in establishing and implementing the DoD-wide Deficiency Reporting System Program. We also evaluated the adequacy of management controls applicable to the product quality deficiency report program.

Audit Results. The Defense Logistics Agency was correct in assuming there were ways to improve the product quality deficiency program. Deficiency reports were initiated when nonconforming materials were identified, and investigations into the causes of the deficiencies were promptly conducted. However, collection of complaint information needs to be improved; and contractor product nonconformance was not always used in evaluating contractors' past performance. These two conditions warrant management action.

- o The Defense Logistics Agency product quality deficiency investigations did not always adequately identify the cause of the reported product deficiencies. As a result, the inventory control points missed opportunities to identify contractors with performance problems, and improve product quality (Finding A).

o The Defense Logistics Agency Automated Best Value System for tracking contractor past performance did not fully reflect contractor quality problems. As a result, the Defense Logistics Agency increased its risk of procuring products from contractors with poor past performance (Finding B).

Management Controls. The management control program could be improved. We identified a material weakness applicable to the audit objectives (Appendix A).

Summary of Recommendations. We recommend that the Director, Defense Logistics Agency require that the DoD Component address code and the contractor address code be a mandatory entry to close a product quality deficiency investigation; clarify the use of the "other/does not apply" cause code for customer product deficiency complaints; eliminate the use of "special inspection" as a cause code for customer product deficiency complaints; and direct that product quality deficiency reporting procedures ensure that the Automated Best Value System includes contractor deficiencies when rating quality for past performance.

Management Comments. The Defense Logistics Agency concurred with all of the recommendations and indicated that corrective actions are being taken. Management is forming a Process Action Team to modify the customer depot complaint system and enhance various reporting codes. The Process Action Team is scheduled to begin February 1998 and complete its work by July 1998. The Defense Logistics Agency will request defense inventory control points to submit quarterly reports to the Materiel Management Monthly Management Reviews on product deficiency cause and correction, as well as disposition codes for closed investigations. The Defense Logistics Agency will revise the Defense Logistics Agency Directive 4155.2, "Quality Assurance Program for DLA Inventory Control Points," to incorporate procedures for contractor notification related to the Automated Best Value System. Also, management agreed to establish a single quality rating for the Automated Best Value System to measure both contractor product quality deficiencies and product laboratory test failures. This procedure has been implemented and will be initiated in February 1998. See Part I for a discussion of management comments, and Part III for a complete text of management comments.

Audit Response. The Defense Logistics Agency comments are fully responsive to the recommendations. We commend the Defense Logistics Agency for seeking to improve its processes and for implementing the initiative to establish a single quality rating for the Automated Best Value System for contractor product quality deficiencies and laboratory test failures so promptly.

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Part I - Audit Results

Audit Background

The audit was initiated at the request of the Director, Defense Logistics Agency (DLA), in the interest of improving the product quality deficiency reporting system. The Defense Logistics Agency Directive 4155.24, "Product Quality Deficiency Report Program," May 1, 1997 (DRAFT), states that the program is designed to identify and purge nonconforming products from inventory and to provide feedback to contracting officers, contractors, and DoD Component customers. The Product Quality Deficiency Report (PQDR) program enables Components to exchange information about necessary corrective actions throughout the acquisition and support process, and to maintain a history of contractor quality. In addition, the program provides the initial reporting, cause, correction, and status of customer product quality deficiencies. The guidance states that the investigative data gathered from the PQDR program should be used to identify problems, trends, and recurring deficiencies detected on new or newly reworked Government-owned products. The key program participants include the DoD Component deficiency report originator, screening point, and the action point.

The PQDR program separates deficiency reports into two categories: Category I and Category II. A Category I is defined as a product quality deficiency which could:

- o cause death, injury, or severe occupational illness; could cause loss or major damage to a weapons system;
- o critically restrict the combat readiness capabilities of a Component organization; or
- o result in a production line stoppage. A product quality deficiency which does not meet the Category I criteria is classified as a Category II deficiency report.

For FY 1996 and the first 3 quarters of FY 1997, the four DLA supply centers had non-fuel material sales of \$7.3 billion to DoD Components and \$5.5 billion to other Federal agencies. During October 1, 1995 through April 30, 1997, the DLA Inventory Control Points (ICPs) recorded 17,051 product deficiency reports for investigation and determination of the complaint. These reports do not include deficiency complaints the military Services receive and investigate for material that they manage through their own supply center ICPs. Our review focused only on complaints processed by DLA.

Customer Depot Complaint System. The Customer Depot Complaint System (the System) records and processes customer and depot deficiency complaints. A complaint refers not just to PQDRs but to any type of deficiency in the quality of products issued, stored, or used by DoD customers. The System is designed to:

-
- o record the status and aging of complaints received at the DLA ICP;
 - o provide information for management analysis;
 - o provide interface with the Automated Discrepancy Reporting System located at Defense Distribution System depots; and
 - o automate the routine tasks involved with the processing of deficiency complaints received at the ICP.

DLA Handbook 4140.4, "Customer Depot Complaint System," April 1, 1996, assigns responsibility for system administration to the Director of Supply Operations along with responsibility for analysis of the completeness, accuracy, and use of the System. The Director is also charged with performing trend analysis for complaints, including disposition of closed complaint results, and to report adverse or significant trends to management.

Contractor Best Value. As a result of the Packard Commission's recommendation to use commercial buying practices, the DLA inventory control points implemented "best value" programs to rate commercial contractors for procurements. Contractor best value uses a comparative assessment of a contractor's offer on the basis of factors other than price. A contractor's past performance is one factor for assessing the performance risk of future contracts. In 1996, DLA established the Automated Best Value System (ABVS) as a means to capture contractor past performance in order to assess the procurement risk associated with each potential contractor. The ABVS collects contractor past performance data and calculates a numeric score used by contracting officers when evaluating contractor proposals. The primary source of past performance is the System that provides information for contractor product nonconformance. Contract awards using ABVS consider contractor price, quoted delivery, and performance risk.

Deficiency Reporting System. In 1992, the Joint Logistics Systems Center initiated the development of the DoD-wide Deficiency Reporting System Program to provide a software system for DoD component users to originate and resolve a product quality complaint.

In October 1996, the Assistant Deputy Under Secretary of Defense (Logistics Business Systems and Technology Development) issued a memorandum terminating all future software development and deployment activities for the DoD-wide Deficiency Reporting System Program. Appendix C includes additional information on this program.

Audit Objectives

The primary audit objective was to determine whether defective products were being reported by customers, and if reported, whether they were promptly investigated and corrected. The audit was to evaluate the product quality deficiency report programs used by DoD components; however, we limited the audit to include only the Defense Logistics Agency product quality deficiency report program. We also reviewed the DoD-wide Deficiency Reporting System Program to determine if it was providing managers with timely information needed to identify inferior products. We also evaluated the adequacy of the management control program as it applied to the primary audit objective. See Appendix A for a discussion of the audit process and a review of the management control program. Appendix B has a summary of prior audit coverage related to the audit objectives.

Finding A. Quality Deficiency Reporting

Defense Logistics Agency product quality deficiency investigations did not always identify the causes of reported product deficiencies. This occurred because the inventory control points were not provided complete product quality deficiency report data, and did not correctly code the cause of deficiencies or results of the investigations. As a result, the Government missed opportunities to identify contractors with performance problems and improve product quality.

Deficiency Complaint System

DLA uses the Customer Depot Complaint System (the System) to record and track a product deficiency complaint until resolution of the investigation.

The principal participants in the PQDR process are the originator, originating point, screening point, and action point.

- o An originator is a user who discovers the defective product and initiates the deficiency report.

- o An originating point is an organization within a Component (or a contractor who receives a Government product) that finds a product quality deficiency and reports it to the designated Component screening point.

- o A screening point is a designated activity identified within each Component that: reviews the PQDR for proper categorization, validity, correctness of entries, accuracy, and completion of information addresses; determines and transmits the PQDR to the proper action point within or outside the Component, for example an ICP; maintains an audit trail for each PQDR; reviews closed-out responses from action points; and collects, maintains, and exchanges PQDR data with other DoD Components.

The PQDR investigation begins at the ICP action point. The Quality Assurance Specialist (QAS) is primarily responsible for managing investigations and performs the majority of the action point responsibilities. During the investigation, the QAS enters codes and text to explain the cause of the deficiency, the action taken to correct the deficiency, and the disposition of the defective product.

Finding A. Quality Deficiency Reporting

Action point responsibilities include determining:

- o whether the complaint should be investigated and the scope of the investigation;
- o the cause of the deficiency, the corrective action, and the disposition of the defective product;
- o whether the contractor should repair, replace, or provide consideration to the Government for the defective product;
- o whether to examine like products in inventory; and
- o whether to put the inventory on hold until the ICP completes the investigation.

An action point decision to examine items in inventory may involve thousands of items and result in defective products being returned to a Defense depot or a contractor for disposal or repair. Only an action point is authorized to inform other Components of deficiencies. Appendix D reviews additional action point responsibilities.

Customer Complaint Information

Product quality deficiency investigations did not always adequately identify the cause of the reported product deficiencies. Missing data and vague codes for explaining the cause of the deficiencies limited the usefulness of the System information.

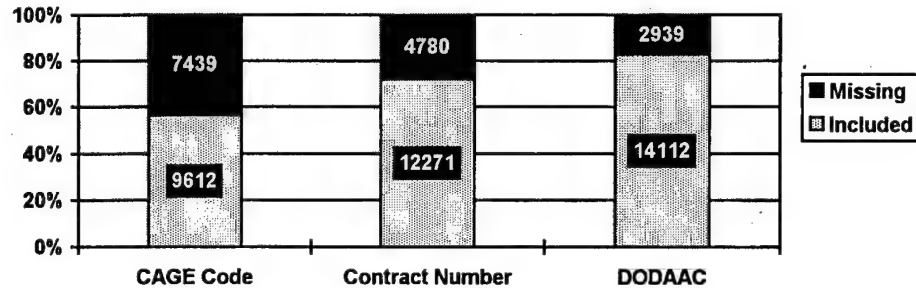
Missing Data. The DLA ICPs provided 17,051 deficiency records. The records included:

- o 282 PQDR category 1 reports;
- o 15,297 PQDR category 2 reports; and
- o 1,472 reports on failed laboratory tests.

Analysis of the records showed the contractor Commercial and Government Entity code (CAGE), contract number, and Department of Defense Address Activity Code (DODAAC) record fields had missing data. Figure 1 shows that approximately 44 percent of the CAGE codes, 28 percent of the contract numbers, and 17 percent of the DODAACs were missing.

Finding A. Quality Deficiency Reporting

Figure 1. Missing Data for Selected CDCS Data Fields



The action point needs the CAGE code number in order to identify the contractor, initiate recoupment action, supply the data to the Automated Best Value System, and/or get the contractor to support an investigation into the cause of the defect. Also, the contract number and CAGE code can be used to facilitate a stock screening. The CAGE code can be identified from information contained in the contract. Therefore, it is important that the contract number be available to the action point. The activity address code is also necessary as it furnishes information on the source of the deficiency report. Using the activity address code allows ICPs to analyze the source of the deficiency report to determine if large numbers of deficient products are being received by specific Component customers.

The DoD Joint Service regulation governing the PQDR process requires that the originating and screening points provide each of these data elements. However, if the PQDR includes the contract number, the action point can identify the CAGE code from the contract or the DODACC by calling the originator of the product deficiency complaint.

Adding Missing Data. The originating point and screening points did not provide complete information for the PQDR. During the investigation, the action point should have added the missing CAGE codes, DODAAC, and contract numbers. Of the 7,439 System records with missing CAGE codes, the QAS could have identified the missing CAGE codes for 2,659 System records by using the contract number already available to them. Also, the originating point DODAAC information could be acquired from the component's screening point.

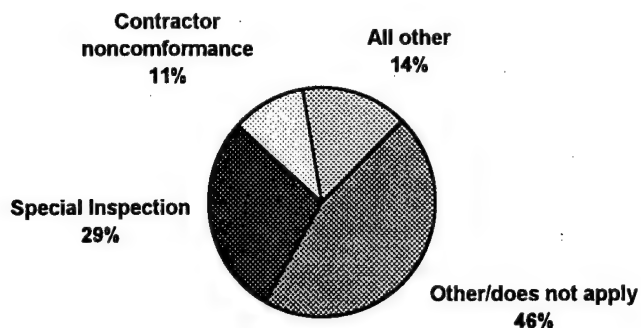
Product Deficiency Cause Codes

A major objective of a PQDR investigation is to identify the root cause of the deficiency. For 75 percent of the records examined, the ICPs used two cause codes to describe the results of the investigations: "other/does not apply"

Finding A. Quality Deficiency Reporting

(7,691 records) and "special inspection" (4,855 records). As a result, neither the cause of the product defect nor the party at fault (the contractor or the Government) could be determined. Figure 2 shows the distribution of cause codes for 16,898 records.

Figure 2. Distribution of Cause Codes



ICP use of cause codes and the results of the product quality deficiency investigation varied by DLA supply center. For example, the Defense Personnel Support Center used other/does not apply for 8.29 percent of its cause codes; while the Defense Supply Center, Columbus used other/does not apply for 67.83 percent of its cause codes. The Defense Supply Center, Richmond used special inspection for 2.28 percent of its cause codes while the Defense Personnel Support Center used it for 88.78 percent of its cause codes. Appendix G shows the variation by ICP Supply Center.

Other/does not apply Cause Codes. The DLA guidance on the use of the other/does not apply cause code is ambiguous. In 1988 DLA instructed ICPs to use the other/does not apply cause code exclusively for product deficiency complaints that the ICP determined should not have been submitted because they were invalid complaints. During our audit, DLA Headquarters reemphasized this policy to ICPs. However, the System manual, published in 1996, contains the cause codes for ICPs to use, and does not state that the use of other/does not apply should be limited to invalid customer complaints.

Reason for Use of Other/does not apply Cause Code. According to the ICP staffs, a large number of records were closed as other/does not apply primarily because the existing System cause codes were not adequate to describe all of the deficiency causes.

For example, the Defense Supply Center, Columbus used the other/does not apply cause code for Component customer credit for defective products

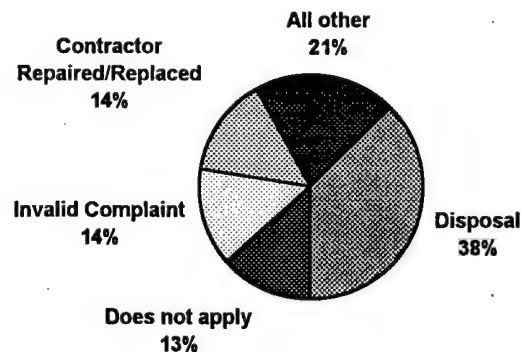
Finding A. Quality Deficiency Reporting

purchased from DLA . The Defense Supply Center, Columbus used this cause code to record customer credit for defective material and established 1,072 records for customer credit.

Two of three ICPs had requested other deficiency codes for the System. DLA deferred the requests, because the DoD-wide Deficiency Reporting System Program, which would have new codes, was going to replace the current System. However, DLA is not implementing this system. Appendix C discusses the Deficiency Reporting System Program.

Adherence to DLA Guidance. DLA policy required ICPs to use the other/does not apply cause code only for invalid customer product deficiency complaints. To measure compliance with that policy, we analyzed the disposition codes for the records coded other/does not apply as the cause of the deficiency. The correct disposition code used for other/does not apply complaints should have always been coded invalid complaint. Figure 3 shows that the ICPs did not follow DLA policy because 86 percent of the records had a disposition code that was not coded invalid complaint.

Figure 3. Disposition Codes for Other/Does Not Apply Cause Codes



An example of the disposition of other/does not apply cause code are PQDRs submitted by 3 different Navy activities against an item in Federal stock class 4730, "Hose, Pipe, Tube, Lubrication, and Railing Fitting." The ICP received 11 PQDRs against this item for the period covered by our System database. The ISP action point coded 10 of 11 PQDR deficiency causes as other/does not apply and the remaining PQDR was coded as a contractor product nonconformance. The action point assigned 3 different disposition codes to the 11 PQDRs. For the 10 PQDRs coded other/does not apply, the investigator coded 6 items to return to depot inventory and coded 4 items to authorize disposal of the defective items. For the one PQDR coded contractor product

Finding A. Quality Deficiency Reporting

nonconformance, the defective product was returned to the contractor. Disposal of the 4 items certainly implies the items were defective products, yet the PQDRs did not have a correct deficiency cause code.

Special Inspection Cause Code. The ICPs coded 29 percent of the deficiency complaints as special inspection. The special inspection cause code describes an action taken instead of a cause for the product deficiency. The special inspection codes were being used primarily to record customer credits for defective products purchased from DLA. The Defense Personnel Support Center accounted for 78 percent of the total special inspection records (4,855). This was a result of the center's policy that required a PQDR with fewer than 5 defective items and with a total cost of less than \$250 to be coded special inspection. The center developed this policy to grant credits to customers for defective products.

Metrics

Metrics Requirements. DLA headquarters required the ICPs to report quarterly metrics on the number of PQDRs received, closed, open for investigation, and the average processing time. These metrics focused on the efficiency of processing and investigating PQDRs instead of the causes of the deficiencies being submitted and the overall outcome of the investigations.

The ICPs were not reporting metrics for the root cause of the product deficiencies, and disposition of the investigations. A March 31, 1993, DLA Deputy Executive Director (Quality Assurance) letter, "Product Quality Deficiency Report (PQDR) Program," to Commander of DLA Supply Centers provided guidance for improving the PQDR investigative process. The Director said, "Program effectiveness should also be determined by the establishment of metrics which measure PQDR investigations and resolutions related to: identifying the root cause of the deficiency; introduction of corrective actions to prevent recurrence; satisfying the complaint initiator; recoupment from contractors for contractor-caused deficiencies; as well as times associated with the accomplishing of these process objectives." Unfortunately, Headquarters DLA and the ICPs use only metrics associated with timeliness.

Metrics Usage. People in organizations usually adapt their behavior to what management is measuring, that is, those things that management measures receive the most attention from employees. When DLA emphasized PQDR closing times and the inventory of open customer deficiency complaints, average processing time and the number of open complaints decreased. Metrics that focus on measuring PQDR program effectiveness should improve the investigation and reporting of the results of deficiency investigations. The number of investigations for which the deficiency cause was "other/does not apply" will decrease if the ICPs have to report to management why "other/does not apply" was used in almost one half of the System records we reviewed.

Emphasis on determining the actual cause of deficiencies is the first step in correcting deficiencies, reducing product inventory costs, and assuring customer satisfaction of DLA products.

Realizing System Benefits

The inventory control points missed opportunities to identify contractors with performance problems, and improve product quality.

Contractor Past Performance. PQDRs are the primary source of information about quality of contractor past performance. ABVS uses past performance quality data to rate contractors. When the CAGE code is missing, the ABVS cannot rate the contractor's quality performance. For example, 187 of 1,833 records coded as contractor nonconformance with the contract number did not have the CAGE code. Thus, 10 percent of the records coded as a contractor deficiency may not have been used to calculate ABVS quality ratings. This missing information could have been the deciding factor in a contract award.

Improving Product Quality. When the PQDR investigation did not identify the cause of the product deficiency, DLA lost opportunities to improve the quality of future procurements. The PQDR program should identify the reason that contractors deliver defective products to the Government. Either the Government or the contractor was the cause of the deficiency. When the investigation did not determine the root cause of the deficiency and the responsible party, DLA could not initiate action to correct the deficiency.

When DLA did not identify the responsible contractor or establish that the contractor was at fault for a defective product, the Government could not obtain the repair, replacement, or financial consideration for the defective product from the contractor. The Government absorbed the entire cost for disposing of and replacing defective products.

During October 1, 1995 through March 31, 1997, ICPs identified \$26.1 million of contractor defective products. From this total, contractors will provide consideration valued at \$16.8 million (repair, replace, or financial consideration) for the defective product.

Obtaining Value. Because the purpose of a PQDR investigation includes identifying the cause of the deficiency and 75 percent of the investigations did not identify the cause, ICPs were not using resources effectively when investigating PQDRs. According to an October 1994, DLA study, "Cost of Nonconforming Supplies Update," the average administrative cost for actions that encompass quality deficiency report processing, investigation, and resolution was \$868 per complaint for a typical DLA-managed item. The analysis also showed that the average holding cost per quality deficiency report was 5.98 percent of the contract value for a typical item. Holding cost is the sum of two elements. The first is opportunity cost or the value of money for

Finding A. Quality Deficiency Reporting

the product in storage that is restricted from shipment pending the outcome of the investigation. The second is supply cost or the cost of holding the physical inventory in a warehouse.

The study stated that the sum of the administrative and holding costs represents a "minimum" total complaint cost. Using the study's cost of \$868 per complaint, the cost of processing the 7,691 PQDRs coded "other" was \$6,675,788. This estimate does not include the holding costs associated with a deficiency complaint. The best way to obtain value is to identify and correct the cause of the defect, and when applicable, receive consideration from the contractor for nonconforming products.

Conclusion

DLA was correct in assuming that the PQDR system needed improvement. Missing data, inconclusive results for investigations, and reporting of metric information that focuses on the efficiency of the process all result in less than optimum process results. Missing data needed to identify the contractor affects the ability to recover consideration from the contractor when the contractor caused the deficiency. Missing data also affects the contractor ratings in the ABVS. The use of cause codes that do not provide useful information about the reason for product deficiencies hampers efforts to improve product quality for customers. Inconclusive product deficiency cause codes deny management information to focus attention on product quality problems needing corrective action by the Government. DLA directs significant attention toward improving contractor performance through the use of ABVS to rate contractor quality past performance. Yet, the System records we reviewed had only about 11 percent of the PQDRs as contractor-caused deficiencies.

Recommendations and Management Comments

A. We recommend that the Director, Defense Logistics Agency:

- 1. Modify the customer depot complaint system to require the Commercial and Government Entity code as a mandatory entry for closing a complaint whenever the record includes the contract number.**
- 2. Modify the customer depot complaint system to require the DoD Activity Address Code as a mandatory entry for closing a product quality deficiency investigation.**
- 3. Clarify proper use of the other/does not apply cause code for customer deficiency complaints.**

Finding A. Quality Deficiency Reporting

4. Eliminate the use of special inspection as a cause code for customer deficiency complaints.

5. Revise the customer depot complaint system's cause, disposition, and action codes and replace them with more descriptive codes for deficiency complaints.

6. Require the defense inventory control points to report quarterly metrics on product quality deficiency cause, correction, and disposition codes for closed investigations. The report should also include information on initially missing contract numbers, Commercial and Government Entity codes, and DoD Address Activity Codes.

Defense Logistics Agency, Comments. DLA concurred with all of the recommendations and stated that a Process Action Team (PAT) will be initiated in February 1998 to address the recommendations for corrective actions. DLA provided a timetable to develop draft codes, metrics, and policy. DLA will request that the Defense Inventory Control Points report quarterly through the Materiel Management Monthly Management Reviews on product deficiency causes, corrections, and disposition codes for closed investigations. DLA also stated that the agency policy in Defense Logistics Agency Directive (DLAD) 4155.2, "Quality Assurance Program for DLA Inventory Control Points," will be revised to include these recommended changes.

Finding B. Automated Best Value System

The Automated Best Value System for contractor past performance did not fully reflect contractor quality problems. This occurred because the Defense Logistics Agency did not ensure that the data inputs to the system were accurate and complete and that contractors were penalized equally for nonconforming products. As a result, the Defense Logistics Agency increased its risk of procuring products from contractors with poor past performance.

Automated Best Value System Methodology

Because of the Packard Commission recommendation to use commercial buying practices, DLA implemented "Best Value" programs to rate contractors for future procurements. DLA defines "Best Value" as a comparative assessment of offers on the basis of factors in addition to price. DLA evaluates past performance as one means of assessing contractor performance risk.

DLA uses the Automated Best Value System (ABVS) to record past performance of active contractors. The ABVS is an automated system which collects and analyzes contractor past performance data from other DLA automated systems, including the customer depot complaint system. The ABVS translates the data into a numeric rating that a contracting officer can use to evaluate a contractor.

The ABVS rates contractors on a 100 point system, consisting of 50 points for quality and 50 points for delivery over the preceding 12 months. Contractors with high ratings represent a lower performance risk. Each contractor receives a rating for each Federal stock class in which the contractor provides the Government products. In addition, DLA provides contractors with an overall rating that is a summary of their performance in all supply classes. Under current procedures, DLA must notify a contractor of a quality deficiency problem before deducting points from the contractor numeric rating. Then the ABVS deducts points from the contractor's rating based on the point assignments as described in figure 4.

Figure 4. Automated Best Value System Ratings

Quality: (50 points)

| | |
|----------------------------|-----------|
| Laboratory Tests Failures | 15 points |
| Product Complaints (PQDRs) | 25 points |
| Packaging Complaints | 10 points |

Delivery: (50 points)

| | |
|----------------------------------|-----------|
| Frequency of late contract lines | 30 points |
| Average number of days late | 20 points |

If a contractor has no deficiencies the contractor receives 100 points for past performance. The ABVS deducts product quality points for product complaints (PQDRs), packaging complaints, and laboratory test failures. The ABVS deducts delivery points based on the frequency of delinquent contract lines and the number of days late. The rating points are deducted from the contractor when deficiencies occur. The ABVS prorates the deduction of points based on the number of deficiencies against the number of contract lines awarded. For example, if a contractor has one PQDR and one contract line, the System would deduct the full 25 points for product complaints. If a contractor has one PQDR and two contract lines, the ABVS would deduct 12.5 points for product complaints. For laboratory test failures, ABVS prorates 15 points based on the parts that failed divided by parts tested.

Inaccurate and Incomplete Quality Data

The ABVS did not fully reflect contractor quality problems because ICPs did not ensure accuracy and completeness of the data. As a result, the ABVS quality ratings did not accurately rate contractors for past performance.

Product Quality Deficiency Reports. The ABVS did not make point deductions for product complaints recorded in the System. We identified 30 contractors with 3 or more PQDRs issued against a Federal stock class number where DLA determined the contractor was at fault. For seven contractors, ABVS did not list the PQDRs issued against the contractors for the specific product Federal stock class. For three contractors, ABVS did not list the PQDRs for the contractor overall rating for the specific product Federal stock class number. For the remaining 20 contractors, ABVS listed the PQDRs against the product Federal stock class number and the overall contractor rating;

Finding B. Automated Best Value System

however, the contractors' quality ratings did not reflect all of the multiple PQDRs listed for the product Federal stock class. Accordingly, ABVS quality ratings for multiple PQDRs did not completely reflect the contractors past performance ratings.

Test Failures. ABVS did not make point deductions for test failures recorded in the customer depot complaint system. We identified 110 laboratory product test failures caused by a contractor deficiency that meet the ABVS rating criteria. Of the 110 tests, we identified 9 test failures that ABVS did not list for the contractor's product Federal stock class number. ABVS recorded 27 test failures but failed to deduct points from the contractor performance rating against the Federal stock class number. ABVS deducted points for the remaining 74 test failures and 35 of the contractors received 12 points or more of the possible 15 points for product test failures. Four of these contractors had several test failures for a product Federal stock class number, yet they still received high ratings and remained strong contenders for future business. For example, one contractor had three test failures but ABVS rated the contractor at 92.8 points for the product Federal stock class number.

Cause of Inaccurate and Incomplete Data. ICPs did not ensure that inputs to the System, which updates the ABVS, were accurate or complete. Accordingly, ABVS could not record accurate contractor quality ratings and this accounted for the majority of the incomplete and inaccurate ratings for contractor past performance.

ICPs also excluded PQDRs and laboratory test failures from ABVS quality ratings for other reasons. For example, quality assurance specialists will exclude data when there is a question concerning the PQDR or test failure investigation results on the cause of the product deficiency, or when contractors successfully challenge the Government on whether the product deficiency was caused by the contractor.

Under current procedures, ICPs must notify a contractor of a product quality problem prior to subtracting points from the contractor's numeric rating. For example, contractors selling to the Defense Supply Center, Richmond successfully challenged the ABVS quality rating 55 times over the last two years. Forty six of the 55 contractors were successful in reversing quality rating deductions because the contractors were not notified. Quality assurance specialists need to notify contractors of all deficiencies so that past performance quality data can be used in ABVS to rate contractors for future procurements.

Increased Risk. As a result of inaccurate ABVS quality ratings, DLA increased its risk of purchasing products from contractors with poor past performance. During contractor selection, ICPs use the ABVS ratings to compare the past performance of possible contractors. Since price and past performance are the primary evaluation factors used to award a contract, correct contractor ratings are important to assist contracting officers in making good contract award decisions.

Unequal Allocation of Quality Rating Points

DLA did not penalize contractors equally for nonconforming products. This occurred because DLA did not modify the ABVS to coincide with DLA changes to the laboratory testing procedures.

Development of the Automated Best Value System. When DLA developed the ABVS, a quality rating of 40 points was used to measure contractor quality deficiencies (15 points for laboratory test failures and 25 points for product complaints). DLA assigned a lower point reduction for lab test failures because DLA laboratory testing often focused on contractors with known quality problems. DLA determined that ABVS should not deduct the maximum amount of quality points from a contractor that DLA tests more frequently because of quality problems. However, in January 1995 DLA implemented the Product Verification Program which led to changes in the contractor selection process for product testing.

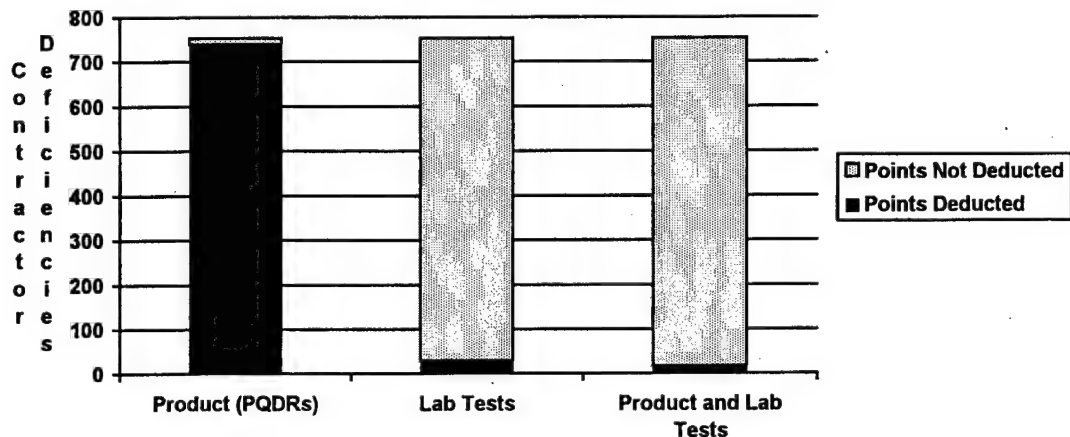
Product Verification Program. Under the Product Verification Program, DLA does not target specific contractors for laboratory testing. The Product Verification Program conducts laboratory testing of contractors selected either through random sample selection of products or as the result of a directed product laboratory test. Directed tests are frequently the result of a quality assurance specialist's investigation of a PQDR to determine the cause of the deficiency. In the event of a product laboratory test failure associated with a random sample, the ICP submits a PQDR that could reduce the ABVS quality rating 15 points for a laboratory test failure if the contractor caused the product deficiency. However, DLA personnel do not issue a PQDR for a directed laboratory test failure associated with an ongoing PQDR investigation. Product Verification Program personnel consider the primary purpose of a directed product test to be resolution of the cause of the product deficiency, not data inputs to ABVS quality ratings for past performance.

Because a PQDR is not submitted to record a directed laboratory test failure, the ABVS does not subtract contractor quality points for the test failure. As a result, a contractor does not receive the maximum point deduction from the quality rating. A contractor that has both a PQDR and random test failure determined to be a contractor deficiency could receive a maximum deduction of 40 points. However, if a contractor has only a PQDR recorded against a product and the contractor's product was not randomly selected for laboratory testing, the contractor would only receive a maximum deduction of 25 points for product quality deficiency. Basically, the ABVS quality rating relates more to how the ICP detects the deficiency, that is, through a PQDR or laboratory test rather than the fact that a product deficiency has been identified.

Finding B. Automated Best Value System

Contractors can receive a higher quality rating than warranted for a product deficiency. We identified 753 contractors with reduced ABVS quality scores (packaging not included). Of the 753 contractors, 740 contractors received quality deductions (25 points) for PQDRs; however, only 17 contractors had quality point deductions for both laboratory product test failures and PQDRs (40 points). The ABVS did not deduct test failure rating points from the other 723 contractors because those contractors were either not chosen for a random laboratory test or the ICP did not record the test failure because it was a directed test associated with a PQDR. Of the 30 contractors with laboratory test failures only (15 points), 13 contractors still received 25 points for product quality because the ICPs did not receive a PQDR against those contractors.

Figure 5. Quality Point Deductions Based On The Number Of Known Contractor Deficiencies



Combined Quality Rating. Regardless of how a product deficiency is detected, a contractor's ABVS quality rating should reflect that deficiency. DLA developed the ABVS and assigned contractor quality points to reflect the product testing procedures. However, as the DLA testing procedures changed, contractors became less likely to receive point deductions from both PQDRs and laboratory test failures. DLA should eliminate this rating inequity and use only one quality rating factor of 40 points for either a PQDR or laboratory test failure. As a result, ABVS would fully reflect a contractor product deficiency and not reflect the method of deficiency detection.

Conclusion

We did not intend to identify the actual effect on contracts awarded to contractors based on ABVS ratings. However, inaccurate quality ratings of contractors potentially increases the risk of procuring products from contractors

Finding B. Automated Best Value System

with poor past performance. Even though ABVS ratings do not determine eligibility for contract award or technical acceptability, ratings are used for comparison of past performance of potential contractors with the Government.

The past performance of a contractor who has delivered late, had quality problems or failed to perform in the past, should be unfavorably reflected in ABVS contractor ratings. A contractor's low score translates into a probable high risk of future late deliveries, but it will also reflect hidden costs which can result in lower supply availability, increased acquisition and procurement lead times, and increased costs in post award contract administration.

Recommendations and Management Comments

B. We recommend that the Director, Defense Logistics Agency direct the inventory control points to:

1. Develop quality deficiency reporting procedures to ensure that DLA accurately reports contractor quality deficiencies to the customer depot complaint system, which updates the Automated Best Value System for contractor past performance.

2. Notify contractors that their product deficiency will be reported in the Automated Best Value System quality ratings after completing an investigation.

3. Establish a single quality rating for the Automated Best Value System to measure contractor product quality deficiency and product laboratory test failures.

Defense Logistics Agency, Comments. DLA concurred with all of the recommendations stating that the DLA PQDR PAT will revise various reporting codes and require the ICPs to report quarterly metrics by July 1998. The DLA PQDR PAT will also review and clarify procedures for contractor notification. DLA's policy in DLAD 4155.2 will be revised to include the recommended changes. DLA stated that by February 15, 1998, DLA will adopt the recommendation to combine laboratory test failures and product deficiencies for calculating quality ratings.

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Part II - Additional Information

Appendix A. Audit Process

Scope

We evaluated the DoD PQDR process established by DLA and the Military Departments, which reports material quality conditions across DoD Component organizations. We reviewed the System for product deficiencies and product laboratory test failures for items managed by DLA. For October 1, 1995, through April 30, 1997, we reviewed 17,051 records in the System data base that were recorded for deficiency complaints received, closed, and the resolution of the investigations. We reviewed the DLA recoupment records for contractor nonconforming products reported in the System data base.

We reviewed the ABVS that rates contractor past performance to determine if contractor quality ratings were being deducted for reported product deficiencies. We evaluated product quality deficiencies and product laboratory test failures reported in the System data base which were investigated and determined to be caused by a contractor deficiency.

We reviewed the Joint Logistics System Center's program documentation for the Deficiency Reporting System Program. We also reviewed the Under Secretary of Defense (Logistics), Military Departments, and DLA decision not to implement the Deficiency Reporting System Program as a DoD-wide product deficiency information system.

We did not use statistical sampling procedures for this audit.

Audit Period and Standards

We conducted this economy and efficiency audit from January 1997 through October 1997, in accordance with auditing standards issued by the Comptroller General of the United States, as implemented by the Inspector General, DoD.

Use of Computer-Processed Data

We relied on DLA computer-processed data contained in the ABVS and the System without performing tests of system general and application controls to confirm the reliability of the data. We did not establish the reliability of the data because it was not within the scope of the audit. However, we did examine

the computer-processed data to include verifying that the information included the fields and document types we requested. We also determined that the System record fields contained information on national stock number, control number, and contract number, and contractor address code.

Management Control Program

Requirement for Management Control Review. DoD Directive 5010.38, "Management Control Program," August 26, 1996, requires DoD organizations to implement a comprehensive system of management controls that provides reasonable assurance that programs and administrative and operating functions are efficiently and effectively carried out in accordance with applicable law and management policy.

Scope of Review of Management Control Program. We evaluated management controls related to the PQDR program described in DLAD 4155.2, "Quality Assurance Program for the DLA Inventory Control Points," DLAR 4155.24, "Product Quality Deficiency Report Program," and DLAH 4140.4, "Customer Depot Complaints System Handbook." We also evaluated Defense Industrial Supply Center, Defense Personnel Support Center, Defense Supply Center Columbus, and Defense Supply Center Richmond procedures for informing contracting officers and contractors of PQDRs. In addition, we examined management control procedures to ensure that quality assurance personnel knew how to support requests for recoupment from contractors who supplied defective products. We also reviewed the requirement that supervisors document their review of product quality deficiency files prior to closing an investigation. We reviewed the DLA results of self-evaluation of those management controls related to quality and PQDR process.

Adequacy of Management Control Program. The audit identified material control weaknesses as defined by DoD Directive 5010.38, "Management Control Program," August 26, 1996. Management controls were not adequate to ensure that correct and complete product quality deficiency information was recorded in the System. Further, management controls were not adequate to ensure that the System information for contractor nonconformance was being reported to the Automated Best Value System for quality rating of contractor past performance. Recommendations A.1., A.2., A.3., B.1., and B.2. will correct the management control weaknesses. A copy of the report will be provided to the senior official responsible for management controls within the Office of the Director for DLA.

Adequacy of Management's Self-Evaluation. DLA has identified the PQDR program and process as management control assessable units. During FY 1996, a DLA quality management review was performed at Defense supply centers at Richmond, VA; Columbus, OH; and Philadelphia, PA. The quality management review did not identify the specific material management control

Appendix A. Audit Process

weaknesses identified in the audit. However, the review did identify Quality Assurance Specialist personnel not performing all quality functions due to a large volume of work; and inadequate Quality Assurance Specialist training required to perform their job functions.

Appendix B. Prior Audits and Other Reviews

IG, DoD Report No. 94-079, "DoD Component Implementing Action Plans for Improving the Quality of Spare Parts," April 12, 1994, found that the DoD Components need to establish additional initiatives for feedback, reporting, data exchange, and definitions to the PQDR Program. As a result of recommendations, the Army, Air Force and Navy established policies to reissue and update action plans on a more timely basis. DLA management developed and published an updated action plan in December 1993.

IG, DoD Report No. 93-066, "Recoupments for Quality Defects," March 10, 1993, stated that the Defense Logistics Agency Defense Supply Centers did not perform complete quality assurance investigations because quality assurance specialists frequently curtailed PQDR investigations without validating quality deficiencies through the supplier. As a result of the recommendations, DLA issued a policy memorandum requiring QASs to meet certain objectives in a PQDR investigation. Also, DLA implemented procedures to perform laboratory tests as a means to support a product deficiency investigation.

IG, DoD Report No. 92-099, "Quality Assurance Actions Resulting from Electronic Component Screening," June 8, 1992, described problems with the collection, distribution, and use of quality deficiency information in DoD. As a result of the recommendations, the Director of Defense Procurement requested, and DLA officials agreed to identify problem products and product lines/suppliers to address nonconforming products, and the policy covering recoupments for products with major nonconformances.

IG, Air Force Audit Agency, Report No. 95061021, "Deficiency Reporting Management," November 28, 1995, reported that the PQDR program was cumbersome. Based on interviews, no more than 10 to 15 percent of all deficiencies were reported on PQDRs. The report describes problems with training and guidance of base personnel. As a result of the recommendations, the Air Force Materiel Command is implementing a new training program explaining PQDR procedures.

Office of Internal Review, DSCC Columbus, "Review of Product Quality Deficiency Reports (PQDR) (In Land Application)," June 20, 1997, found that documentation and notification to the customer needed to be improved and a more effective communication system established. As a result of the recommendations, management devised management controls for tracking complaints by national stock numbers. Also, management agreed to sample PQDR reports to verify customer satisfaction.

Office of Internal Review, DSCR Richmond, "Recoupment Actions Taken on Contractor Noncompliance Product Quality Deficiency Reports, Audit Control No. J9610," January 24, 1997, found that recoupment actions were being taken and were generally adequate. However, a lack of communication

Appendix B. Prior Audits and Other Reviews

between quality personnel and contracting personnel was generally the reason when no recoupment action was taken. As a result of the recommendations, management modified the process of reporting recoupment actions and reemphasized the applicable guidance needed for successful recoupments.

Office of Internal Review, DISC Philadelphia, "Audit of Compliance with the DLA Action Plan for Continuously Improving the Quality of Spare and Repair Parts in the DoD Logistics System," May 20, 1992, found that the internal coordination and related actions after the receipt of information on nonconforming products was adequate. Additionally, the procedures for ensuring that the performance of contractors was being factored into the source selection process were not yet implemented because of a DLA Headquarters directed change.

Appendix C. Other Matters of Interest

At the present, each DoD Component has its own information system for reporting, processing and tracking the progress of deficiency reports. The DoD-wide Deficiency Reporting System Program was initiated to replace existing DoD Component product legacy deficiency systems and to automate the deficiency reporting process and provide users with a means to perform eight primary business functions. The formal program description defines these business functions as:

- o Identify a deficiency
- o Originate a customer complaint
- o Screen the complaint
- o Investigate the deficiency
- o Coordinate disposition of the discrepant material
- o Resolve the deficiency
- o Analyze performance

The Deficiency Reporting System included PQDRs but also several other types of deficiency reports, such as Reports of Discrepancy, Medical Complaints, and Transportation Discrepancy Reports.

In June 1992, the Deficiency Reporting System Program development started with the Army tasked to develop and implement the program, with program deployment planned for September 1994. The program was transferred from the Army to the DoD Joint Logistics Systems Center in 1994.

In October 1996, the Assistant Deputy Under Secretary of Defense (Logistics Business Systems and Technology Development) issued a memorandum terminating all future software development and deployment activities for the Deficiency Reporting System Program. By February 1997, about \$37 million had been spent on program development.

During 1997, the Deficiency Reporting System underwent Army software tests (alpha version 1c) for possible Army adoption. However, the software tested

Appendix C. Other Matters of Interest

did not include all the capabilities originally planned and the resulting program capability included only PQDRs and Report of Discrepancy for customer complaints.

Current Status. In September 1997, the Army completed Deficiency Reporting System testing of the version 1c software. The Army has requested that the Joint Logistics Systems Center release the software and supporting documentation for future fielding if Army funds become available. DLA, Navy, and Air Force will continue using their current legacy information systems for product deficiency reports and they do not plan on using the Deficiency Reporting System's software in the future.

Appendix D. Glossary of Defense Logistics Agency Data

Each DLA ICP provided System records in electronic format. The System records were document types 0 and 1 (PQDRs); Type 2 (Depot Returns); and Type 4 (Laboratory Tests) recorded from October 1, 1995 through April 30, 1997. Each record included the following data fields.

Report Control Number - the Center's control number for the complaint.

Receive Date - the date the complaint was received and recorded into the System.

Close Date - the date the center has completed all actions on resolution of the complaint and recorded it into the System.

Document Type Code - the code determines if the record is a Category I or II PQDR.

Discrepancy Code - a code summarizing the reason for the complaint.

Cause Code - a code summarizing the cause of the complaint.

Disposition Code - a code summarizing the settlement of the complaint.

Correction Code - a code summarizing the action taken to prevent the reoccurrence of the complaint.

National Stock Number - the stock number assigned to identify a product for procurement.

CAGE Code - Commercial and Government Entity code.

DoDAAC Reporting - Department of Defense Activity Address Code.

Contract Number - the contract the nonconforming item was procured from.

Quantity Reported - the quantity listed on the complaint.

Unit Cost - the unit cost of the nonconforming item.

Appendix E. Product Quality Deficiency Report Action Point Responsibilities

An action point is the focal point, identified within each DoD Component, responsible for resolution of a reported product quality deficiency, including the necessary collaboration with support points (usually Defense Contract Management Command). Only an action point is authorized to transmit a deficiency report across Component lines. The Defense Logistics Agency Regulation 4155.24/AR 702 702-7/SECNAVINST 4855.5A/AFR 74-6, "Product Quality Deficiency Report Program," October 7, 1996, (DRAFT) defines the action point's three primary functions in the PQDR process.

General Area of Responsibility

- o Investigates, resolves, and responds in a timely manner and coordinates with cognizant Defense supply center elements to ensure that other functional DoD Component organizations are kept abreast of actions taken on PQDRs.
- o Takes corrective action on reported product defects and on the cause to preclude recurrence, issues immediate notification to users of the product if the deficiency is serious.
- o Provides instructions for disposition and credit allowances to DoD Components.
- o Analyzes and evaluates product deficiencies to detect trends of poor quality products.
- o Identifies contractors who provide defective products.
- o Shares quality history information with the other Defense supply center elements and DoD Components.

Investigations of PQDRs

- o Reviews the contract, complaints, item and contractor history, technical data, laboratory tests, and inventory balances.
- o Manages and coordinates the examination of the defective product.

Appendix E. Product Quality Deficiency Report Action Point Responsibilities

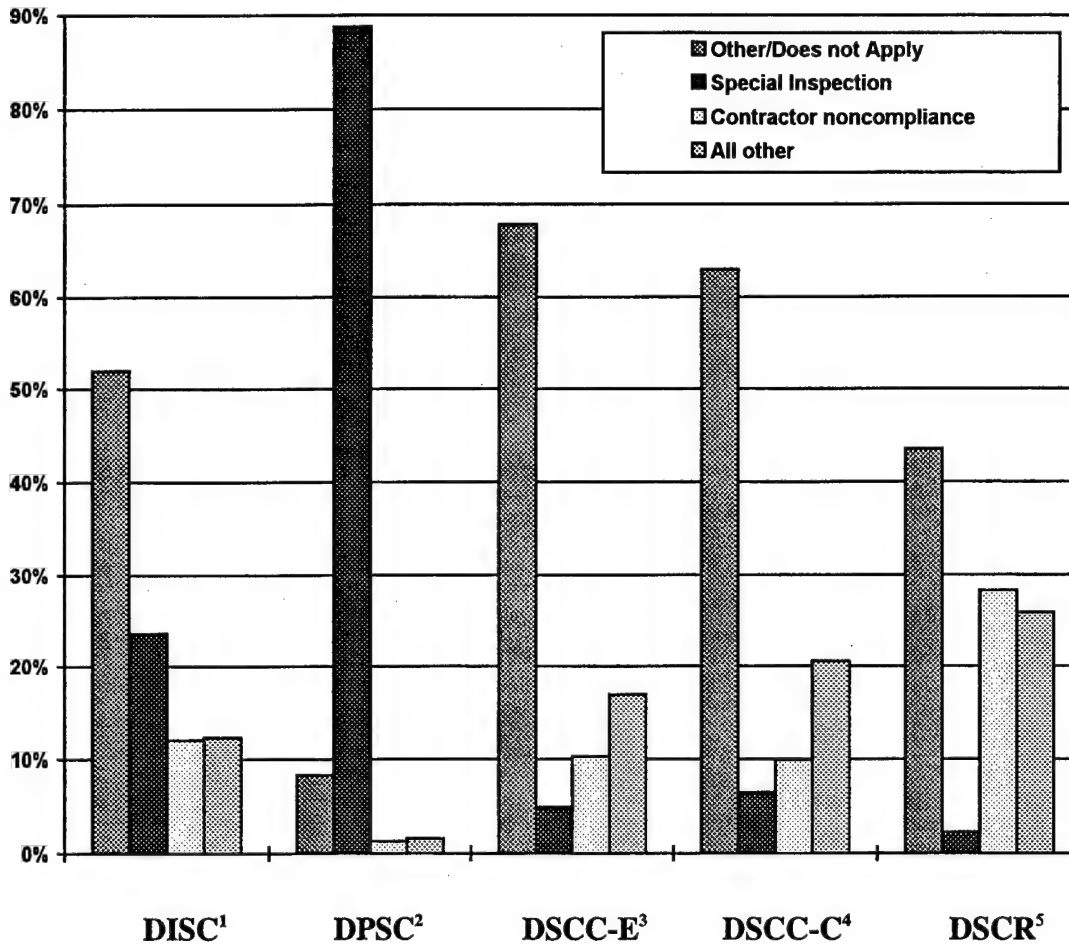
- o Determines the need for an investigation by the support point (usually the Defense Contract Management Command) or determines the need for a quality system management visit by the action point.
- o Evaluates the total investigation results and determines if the PQDR is valid.
- o Takes the appropriate corrective action if the PQDR is valid.

Corrective Actions for PQDRs

- o Screens on-hand inventory to identify and separate defective products.
- o Acts to preclude recurrence by recommending specification changes, changes the contract technical data file, issues quality assurance letters of instruction to inspection activities, advises contracting officers of an adverse quality history, and notifies contractors of the PQDR.
- o Initiates recoupment actions against suppliers of defective products.
- o Coordinates reclassification with supply managers and, if needed, coordinates the disposition of inventory.
- o Notifies inspection activities of future inspections, contracting activities of future contracts, and requisitioning activities of quality deficiencies.

Appendix F. Comparison by Supply Centers of the Use of Cause Codes

Percentage Based on 16,898 Records



¹Defense Industrial Supply Center

²Defense Personnel Support Center

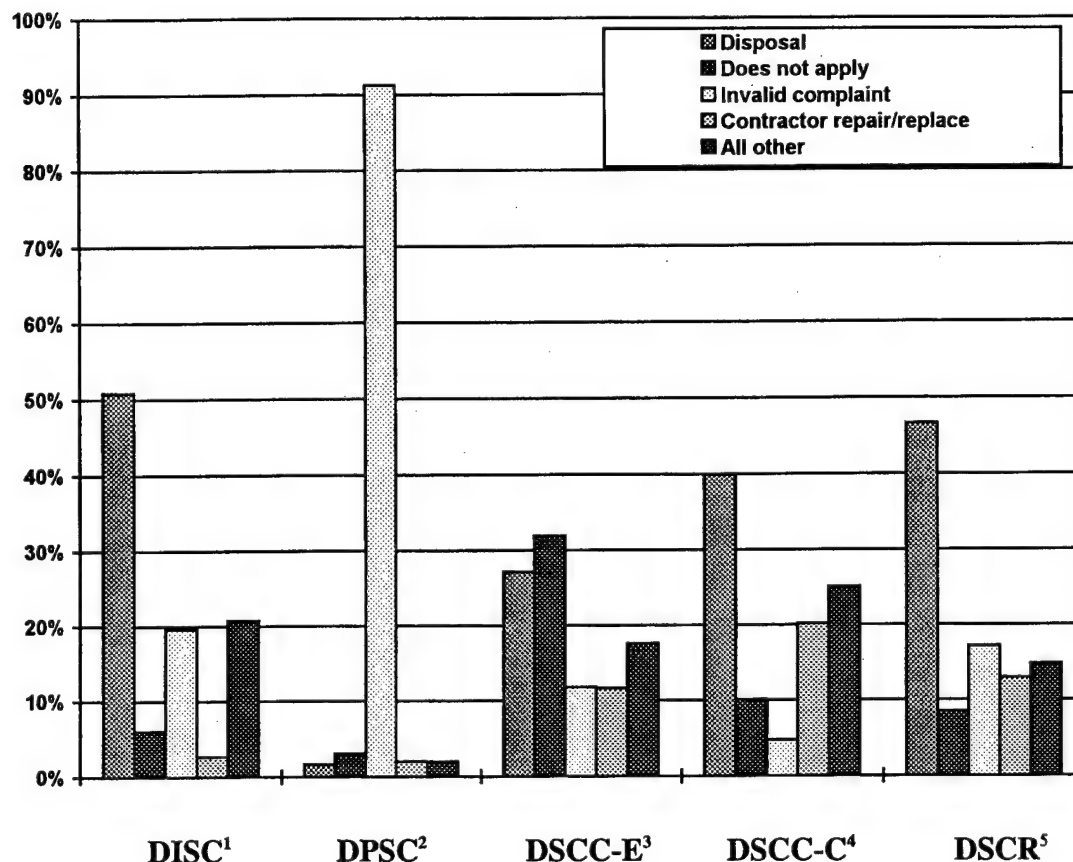
³Defense Supply Center Columbus - Electronics

⁴Defense Supply Center Columbus - Construction

⁵Defense Supply Center - Richmond

Appendix G. Comparison by Supply Centers of the Disposition of Other/Does Not Apply Cause Code

Percentage Based on 7,691 Records



¹Defense Industrial Supply Center

²Defense Personnel Support Center

³Defense Supply Center Columbus - Electronics

⁴Defense Supply Center Columbus - Construction

⁵Defense Supply Center - Richmond

Appendix H. Report Distribution

Office of the Secretary of Defense

Under Secretary of Defense (Acquisition and Technology)
Deputy Under Secretary of Defense (Logistics)
Director, Defense Logistics Studies Information Exchange
Under Secretary of Defense (Comptroller)
Assistant Secretary of Defense (Public Affairs)

Department of the Army

Auditor General, Department of the Army

Department of the Navy

Assistant Secretary of the Navy (Financial Management)
Auditor General, Department of the Navy

Department of the Air Force

Assistant Secretary of the Air Force (Financial Management and Comptroller)
Auditor General, Department of the Air Force

Other Defense Organizations

Director, Defense Contract Audit Agency
Director, Defense Logistics Agency
Director, National Security Agency
Inspector General, National Security Agency
Inspector General, National Imagery and Mapping Agency
Inspector General, Defense Intelligence Agency

Non-Defense Federal Organizations

Office of Management and Budget
Technical Information Center, National Security and International Affairs Division,
General Accounting Office
Office of Federal Procurement Policy
Small Business Administration

Non-Defense Federal Organizations (Cont'd)

Chairman and ranking minority member of each of the following congressional committees and subcommittees:

- Senate Committee on Appropriations
- Senate Subcommittee on Defense, Committee on Appropriations
- Senate Committee on Armed Services
- Senate Committee on Governmental Affairs
- House Committee on Appropriations
- House Subcommittee on National Security, Committee on Appropriations
- House Committee on Government Reform and Oversight
- House Subcommittee on Government Management, Information and Technology,
Committee on Government Reform and Oversight
- House Subcommittee on National Security, International Affairs, and Criminal Justice,
Committee on Government Reform and Oversight
- House Committee on National Security

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Part III - Management Comments

Defense Logistics Agency Comments



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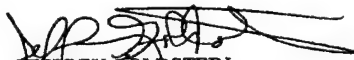
JAN 22 1998

MEMORANDUM FOR ASSISTANT INSPECTOR GENERAL FOR AUDITING,
DEPARTMENT OF DEFENSE

SUBJECT: Draft Report on Defense Logistics Agency Product Quality Deficiency Program,
7CF-0027

Enclosed is our response to your request of 25 November 1997. Should you have any questions
please contact LaVaeda Coulter, 767-6261 or Sharon Entsminger, 767-6267.

Encl


JEFFREY GOLDSTEIN
Chief (Acting), Internal Review

cc:
DLSC-LE
DSCC-DI
DISC-DI
DSCR-DI
DPSC-OSPP

SUBJECT: Defense Logistics Agency Product Quality Deficiency Program, 7CF-0027

FINDING A: Quality Deficiency Reporting (Page 5 of Draft Report)

DLA COMMENTS: Concur. DLA agrees that additional actions are needed to better identify the causes of reported product deficiencies. DLA will initiate a Process Action Team (PAT) to address the recommendations for corrective action. The PAT will modify the customer depot complaint system, as required, to enhance various reporting codes. The Agency will request that the Defense Inventory Control Points report quarterly via the Materiel Management Monthly Management Reviews on product deficiency cause, correction, and disposition codes for closed investigations. Agency policy in DLAD 4155.2 will be revised to incorporate recommended changes.

RECOMMENDATION A: Recommend that the Director, Defense Logistics Agency:

1. Modify the customer depot complaint system to require the Commercial and Government Entity Code as a mandatory entry for closing a complaint whenever the record includes the contract number.
2. Modify the customer depot complaint system to require the DoD Activity Address Code as a mandatory entry for closing a product quality deficiency investigation.
3. Clarify proper use of the other/does not apply cause code for customer deficiency complaints.
4. Eliminate the use of special inspection as a cause code for customer deficiency complaints.
5. Revise the customer depot complaint system's cause, disposition and action codes and replace them with more descriptive codes for deficiency.
6. Require the defense inventory control points to report quarterly metrics on product quality deficiency cause, correction, and disposition codes for closed investigations. The report should also include information on initially missing contract numbers, Commercial and Government Entity Codes, and DoD Address Activity Codes.

DLA COMMENTS: Concur. DLA agrees that additional actions are needed to better identify the causes of reported product deficiencies. DLA will initiate a Process Action Team (PAT) to address the recommendations for corrective action. The PAT will modify the customer depot complaint system, as required, to enhance various reporting codes. The Agency will request that the defense inventory control points report quarterly via the Materiel Management Monthly Management Reviews on product deficiency cause, correction, and disposition codes for closed investigations. Agency policy in DLAD 4155.2 will be revised to incorporate recommended changes.

Defense Logistics Agency Comments

PAGE 2

SUBJECT: Defense Logistics Agency Product Quality Deficiency Program, 7CF-0027

DISPOSITION: Ongoing. ECD: July 31, 1998

| | |
|---------------------------------------|---------------|
| Initial Process Action Team meeting | February 1998 |
| Develop draft codes | March 1998 |
| Draft metrics | March 1998 |
| Coordinate and finalize codes/metrics | May 1998 |
| Draft policy letter for coordination | May 1998 |
| PAT Meeting to finalize actions | June 1998 |
| Issue interim policy letter | July 1998 |
| Initiate System Change Request | July 1998 |

FINDING B: Automated Best Value System (Page 15 of Draft Report)

DLA COMMENTS: We concur with the finding as written. The ABVS strives to obtain the most accurate quality ratings for its contractors. Participating in this audit provided an opportunity for the procurement and quality communities to work together to improve our methodology for obtaining quality ratings. The ABVS relies on the information provided through the DLA automated systems such as the customer depot compliant system. The recommendation set forth in this finding to establish a single quality rating for the ABVS to measure contractor product quality deficiency and product laboratory test failures has been implemented and will become effective with the February 1998 run of the ABVS.

RECOMMENDATION B: Recommend that the Director, Defense Logistics Agency direct the inventory control points to:

1. Develop quality deficiency reporting procedures to ensure that DLA accurately reports contractor quality deficiencies to the customer depot complaint system, which updates the Automated Best Value System (ABVS) for contract past performance.

Concur. Recommendation A addresses improvements to accurate reporting of contractor quality deficiencies in the contractor depot complaint system. The DLA PQDR PAT will revise various reporting codes and require the defense inventory control points to report quarterly metrics by July 1998.

2. Notify Contractors that their product deficiency will be reported in the ABVS quality ratings after completing an investigation.

PAGE 3

SUBJECT: Defense Logistics Agency Product Quality Deficiency Program, 7CF-0027

Concur. DLA's quality assurance component has the responsibility to notify contractors of a deficiency. Once a contractor is notified of a deficiency this deficiency is flagged in the ABVS system through the challenge program and the contractor is given an opportunity to challenge the deficiency. It is only after this is done that a quality score is given. The DLA PQDR PAT will review and clarify procedures for contractor notification. Agency policy in DLAD 4155.2 will be revised to incorporate recommended changes.

3. Establish a single quality rating for the ABVS to measure contractor product quality deficiency and product laboratory test failures.

Concur. Scheduled completion of this recommendation is on or about February 15, 1998. Currently, the ABVS Quality Rating consists of three categories: product deficiencies, lab tests, and packaging deficiencies. The decision has been made as a result of this audit to no longer consider lab tests through a separate system, therefore making them not distinguishable from other deficiencies. Now when deficiencies are identified as a result of lab test failures, they will either be classified as a product or packaging deficiency and entered into the appropriate ABVS category.

Beginning on or about February 15, 1998, the ABVS Quality Rating will consist of two categories: product deficiencies (this category will include both laboratory test failures and product complaints - both captured in the Customer Depot Complaint System) and packaging deficiencies. Because of this change in the relative weighting of the categories a notice has been sent out to all contractors that within the Quality Rating their ABVS score may change. Scores which have been notoriously high will now reflect a more realistic quality score.

DISPOSITION: Ongoing. ECD: July 31, 1998

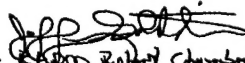
| | |
|--|---------------|
| Revise ABVS Quality Ratings | February 1998 |
| Initial PAT meeting | February 1998 |
| Redraft contractor notification procedures | March 1998 |
| PAT Meeting to finalize procedures | June 1998 |
| Issue interim policy letter | July 1998 |

ACTION OFFICER: Lynn Harris/Althea Norman

REVIEW: John A. Marx, Col, USA

COORDINATION: LaVaeda Coulter, DDAI, 767-6267

DLA APPROVAL:

 1/22/98
For Robert Chamberlin

Audit Team Members

This report was prepared by the Contract Management Directorate, Office of the Assistant Inspector General for Auditing, DoD.

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